

# EXHIBIT

# 7

*Response  
to Request  
# 11*

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE MONTANA PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

The Montana Power Company )

NorthWestern Corporation )

Docket No. \_\_\_\_\_

JOINT APPLICATION OF THE MONTANA POWER COMPANY  
AND NORTHWESTERN CORPORATION

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January 11, 2001

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

\* \* \* \*

THE MONTANA POWER COMPANY ) UTILITY DIVISION  
NORTHWESTERN CORPORATION ) DOCKET NO. \_\_\_\_\_

JOINT APPLICATION OF  
THE MONTANA POWER COMPANY  
AND  
NORTHWESTERN CORPORATION

I. INTRODUCTION

The Montana Power Company ("MPC") and NorthWestern Corporation ("NorthWestern") (collectively the "Applicants") submit this joint application ("Application") requesting that the Montana Public Service Commission ("Commission") determine that Montana Power's utility operations<sup>1</sup>, as a subsidiary or division of NorthWestern, will continue to be a fit, willing and able provider of adequate service and facilities at just and reasonable rates<sup>2</sup>. The sale of MPC's public utility businesses to NorthWestern is part of an overall decision by MPC to divest its energy businesses, thereby allowing these businesses to realize their full potential and to focus MPC's resources on the operation and development of Touch America, Inc. ("Touch America"), a provider of multiple lines of telecommunications services within and outside of Montana.

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<sup>1</sup> As explained below in Section II.A.(ii) MPC Internal Restructuring, the Montana Power utility operations will be conducted through The Montana Power L.L.C. ("Montana Power"), a new entity being formed by MPC that will be acquired by NorthWestern. These continuing operations will be referred to in this Application as "Montana Power."

<sup>2</sup> In the Matter of the Application of Montana-Dakota Utilities, Docket No. 92.11.74, Order No. 5688 ("MDU is fit, willing and able to assume the service responsibilities associated with ownership and operation of a propane gas utility.").

NorthWestern's ownership of Montana Power is consistent with the public interest. NorthWestern's utility business has a 77-year track record of providing excellent customer service at reasonable rates and of actively participating in the communities it serves. As a result of this transaction, Montana Power will continue to provide customers with reliable service at reasonable rates, subject to the continuing jurisdiction of the Commission, from its current headquarters in Butte, Montana, and its facilities throughout Montana.

The Applicants expect to close the transaction in May 2001. The Applicants respectfully request Commission determination by March 30, 2001, to allow the Applicants to obtain the shareholder and other approvals necessary to complete the transaction by the projected closing date. The Applicants have attached all exhibits and information they believe are necessary to allow the Commission to make a fully informed decision. In addition, the Applicants incorporate by reference their joint application filed with the Federal Energy Regulatory Commission ("FERC") on December 20, 2000 (a copy of which has already been provided to this Commission at the time of that filing).

## **II. Description of the Parties**

### **A. The Montana Power Company**

#### **(i) General Description**

MPC is a diversified electric and gas utility providing regulated electric and natural gas services in Montana and contract electric services to Yellowstone National Park in Montana and Wyoming. It provides bundled and unbundled sales, transmission and distribution services to 285,000 electric and 160,000 gas customers in Montana. Exhibit 1, attached hereto, depicts MPC's electric and gas service areas.

In addition to its public utility business, MPC has owned a number of subsidiary companies involved in the energy and telecommunications industries. As discussed below, however, MPC is selling all of its energy holdings to allow these energy businesses to realize their full potential and to focus its resources entirely upon the development and operation of Touch America. Upon closing of the proposed sale of the utility business to NorthWestern, MPC will have completed its transformation into Touch America.

The businesses acquired by NorthWestern as a part of this transaction will also include (1) One Call Locators, Inc., a firm that locates electric and gas lines and other facilities in many Western states; (2) Canadian Montana Pipeline Company, which provides gas transmission services between Canada and the United States; (3) Discovery Energy Solutions, Inc., a business that provides energy management advice and a variety of other energy services to customers; (4) Colstrip Community Services Company, which was established to provide real estate management and related services in Colstrip, Montana, but which no longer has any active operations; (5) Montana Power Services Company, which was formed to hold common corporate properties and provide centralized shared administrative services for MPC and its subsidiaries, so that such services could be appropriately tracked and allocated among the various business units of MPC; (6) Montana Power Capital 1, a statutory business trust created solely to issue preferred securities of MPC; and (7) MPC Natural Gas Funding Trust, a statutory business trust that is a special financing vehicle used in connection with recovery of transition costs associated with the transfer of the natural gas utility's production assets to unregulated affiliates in 1997.

After many months of study, debate and deliberation, on March 28, 2000, the MPC Board of Directors made the decision to divest its energy businesses. Soon after the decision, MPC, with the help of financial and legal advisors, embarked

upon the path to find capable, mature and reliable purchasers for its oil and gas, coal, independent power and energy utility businesses. The search process was divided into two parts, the first devoted to finding a broad group of potential buyers and to requesting non-binding bids, and the second focused on narrowing the group and asking for binding bids. MPC management leading this effort had made clear that they would select the successful buyers based upon, but not limited to, valuation, financial strength, operating experience, reputation for fair dealing with customers and employees, impact on involved communities, and the ability to finalize transactions.

For the utility business, this process took approximately six months, during which time the management team carefully proceeded through the process of selecting the entity who would most capably satisfy the acquisition criteria. NorthWestern was the clear choice for the utility business.

(ii) MPC Internal Restructuring

To effect the sale of its utility businesses, MPC will be proceeding through a series of internal restructurings. Touch America Holdings, Inc. ("Touch America Holdings") was formed for purposes of facilitating the transformation of MPC. Once the transformation is completed, Touch America Holdings will be the holding company of Touch America as well as two other subsidiaries not in the energy business.

The first step of the internal restructuring is the merger of Entech, Inc. with and into Entech LLC, a newly formed subsidiary of MPC, such that Entech LLC will be the surviving entity holding all of the assets of Entech, Inc. Entech, Inc. operates primarily as a holding company for MPC's non-regulated businesses and holds the stock of certain subsidiaries. After the merger of Entech, Inc. and Entech LLC and the sale of MPC's other energy businesses, Entech LLC will hold the stock of two subsidiaries, Touch America and Tetragenics Company. Tetragenics develops,

manufactures, and markets alarm control systems, communications monitoring and control systems, SCADA systems, intelligent remote units, and computer-based products.

The second step of the internal restructuring will involve the merger of MPC and Montana Power, a newly formed subsidiary of Touch America Holdings. MPC will merge with and into Montana Power via a one-for-one stock exchange between MPC and Touch America Holdings. As a result of these transactions, Touch America Holdings will become the parent entity and will directly hold all of the membership unit interests in Montana Power.

The third step of the internal restructuring will involve the transfer of Touch America and Tetragenics Company from Entech, LLC to Touch America Holdings. Specifically, Entech LLC will distribute the stock of Touch America to Montana Power, and Montana Power will further distribute this stock to Touch America Holdings. After these transactions, Touch America Holdings will directly hold the entire stock of Touch America and Tetragenics Company and all interests in Montana Power and Entech LLC.

The sale of Montana Power to NorthWestern will be effected by Touch America Holdings' sale of all of its interests in Montana Power to NorthWestern. As a result, NorthWestern will own all of the interests in Montana Power's utility business as well as related subsidiaries described in Section II.(A).(i) of this Application. The result of the MPC restructuring is shown on the diagrams, which are attached to this Joint Application as Exhibit 2 hereto.

Montana Power has an experienced senior management team leading its utility businesses. Jack Haffey, President of the Utility, has been employed by MPC for 26 years. He has diverse leadership experience and expertise in a broad range of utility issues and in the legislative process. He, along with his fellow officers and employees, are enabling MPC to be a leader in shaping the energy utility direction



of the future, melding the interests of customers, investors, and communities. Dave Johnson, an MPC employee for 19 years, is Vice President-Distribution Services. He has extensive experience in both the gas and electric sides of the business. Bill Pascoe has been employed by MPC for 21 years, most recently as Vice President-Transmission Services. He is recognized throughout the country as an expert in regional electric transmission issues. Pam Merrell was Vice President and Secretary for MPC and its subsidiaries for 8 years. She is currently Vice President-Human Resources and Administration. At the start of her career, she was a member of the MPC legal department, specializing in regulatory law and practice. Ellen Senechal, Vice President and Treasurer, started her employment with MPC in 1974 as a junior auditor. During her career she has participated in or led many utility and most nonutility financings. She has been corporate treasurer since 1996. Ernie Kindt, Vice President and Chief Accounting Officer, has worked for MPC for 26 years. He is a recognized expert in regulatory accounting and utility property taxes. David Ottolino, an MPC and Entech employee for 21 years and currently Vice President and Chief Information Officer, has had diverse experience in the financial and technology areas of MPC. Most recently, he led the MPC's substantial effort to convert to the SAP software system. Pat Corcoran, Vice President-Regulatory Affairs, has been employed by MPC for 22 years. He has testified many times before the Commission on a broad range of issues and has provided key advice to the Legislature's Transition Advisory Committee. Mike Manion, Vice President and General Counsel, has worked broadly in many areas of the law in his 16 years with MPC. He has represented MPC before the Commission and before state and federal courts involving a wide range of issues.

This leadership team, coupled with the approximately 1000 other dedicated employees, look forward to continuing to provide Montana customers safe and reliable service.



B. NorthWestern

(i) General Description

NorthWestern Corporation and its affiliates are leading providers of value-added services and solutions to residential and business customers nationwide. Its strategic focus is on direct customer relationships where it can meet their expectations for superior service and innovative solutions delivered by knowledgeable and professional employees. This customer service emphasis offers NorthWestern the opportunity to achieve favorable operating results and build greater shareholder and employee value over time. NorthWestern has four major operating platforms through which it delivers service:

1. NorthWestern Energy & Communications Solutions comprises the utility operations and related businesses operating in the Midwest. It includes NorthWestern Public Service, a division of NorthWestern, which provides competitive, reliable electric and natural gas service and other value-added services to over 125,000 customers, and NorthWestern Services Group, Inc. ("NSG"). NSG has three divisions: NorthWestern Energy provides energy supply, management and utilization services to commercial and industrial customers, NorthWestern Consumer Services offers cooling, heating, and air quality control installation and maintenance services to residential and small business consumers, and NorCom Advanced Technologies offers a one-stop solution for integration of voice, data and video communications needs of small and medium-sized businesses.
2. Expanets, Inc. markets integrated communication and data solutions and network services nationwide to small and medium-sized businesses, with operations in more than 200 offices in all 50 states.
3. Cornerstone Propane Partners, L.P., a publicly traded master limited

partnership, is the nation's fifth largest retail propane distributor, serving more than 480,000 residential, commercial, industrial, and agricultural customers from 298 customer service centers in 34 states; and

4. Blue Dot Services Inc. is a leading provider of air conditioning, heating, plumbing, and related services, with operations at 62 locations in 25 states. (See Exhibit 7, attached hereto, which includes a diagram depicting NorthWestern's existing structure)

NorthWestern has been recognized as a Platinum 400 company in a Forbes magazine listing of the best-performing corporations in America, and by Fortune magazine as one of the most admired corporations in the energy industry.

NorthWestern was selected by MPC as the successful bidder based on a broad range of factors, including, but not limited to, financial strength, operating experience to provide reliable electricity and natural gas service, reputation for fair dealing with customers and employees, impact on involved communities, and the ability to finalize a transaction. NorthWestern Public Service President and Chief Executive Officer Michael J. Hanson has had 18 years of leadership experience, including his service at NorthWestern Public Service and in prior positions with one of the nation's largest energy companies. He is guiding NorthWestern Public Service through the dramatic changes occurring in the electric and natural gas industries. Prior to joining NorthWestern Public Service in June 1998, he was chief executive for the North Dakota and South Dakota operations of Northern States Power. In addition to Mr. Hanson's experienced management team, NorthWestern Chairman and Chief Executive Officer Merle D. Lewis and President and Chief Operating Officer Richard R. Hylland both have extensive leadership experience in the gas and electric utility business.

NorthWestern Public Service has reliably served customers in South Dakota and Nebraska since 1923 and currently provides competitive, reliable electric and natural gas service and value-added services to customers in the upper Midwest. Its facilities provide electricity to approximately 57,000 customers in South Dakota and natural gas to approximately 80,900 customers in South Dakota and Nebraska.

(a) Electric Operations

More specifically, NorthWestern Public Service provides retail electricity to 108 communities in South Dakota with a combined population of approximately 98,403. This service area covers more than 26 counties in South Dakota. Its electric revenues during the past three years have grown from \$76,700,000 to \$83,900,000. Residential customer sales and commercial and industrial customer sales have constituted approximately 40% and 50% of such revenues, respectively, during this period.

NorthWestern Public Service provides retail service to all customers within a service area assigned by the South Dakota Public Utilities Commission, and is responsible to serve all future electric needs of existing and all new customers in that service area. While direct competition does not exist in South Dakota within assigned electric areas for the supply and delivery of electricity, providers of electricity compete with each other to some extent to attract and retain customers to their assigned service areas. In addition some degree of competition exists with the ability of some customers to self-generate or by-pass parts of the electric system.

In addition, NorthWestern Public Service provides transmission services and makes limited wholesale sales of electric energy. NorthWestern Public Service provides transmission service for several small South Dakota communities and South Dakota state institutions of their allocation of power from the Western Area Power Administration ("WAPA") and makes supplemental wholesale power sales to

those entities for electric needs in excess of their WAPA allocations. NorthWestern Public Service also provides transmission service for the total electric requirements of the community of Groton, South Dakota, including its WAPA allocation and its supplemental energy provided by Heartland Consumers Power District.

NorthWestern Public Service has a letter agreement with WAPA under which WAPA markets NorthWestern Public Service's excess energy in intersystem sales.

NorthWestern Public Service shares with Otter Tail Power Company ("Otter Tail") and Montana Dakota Utilities Co. ("MDU") in the ownership of the Big Stone Generating Plant located near Big Stone City in northeastern South Dakota. It also shares in the ownership of the Coyote I Electric Generating Station located near Beulah, North Dakota with MDU, Otter Tail and the Northern Municipal Power Agency. In Iowa it shares in the ownership of Neal Electric Generating Unit No. 4 located near Sioux City, Iowa with MidAmerican Energy Company, Aliant Power, Cornbelt Power Cooperative, Northeastern Iowa Power Cooperative, and nine other companies. NorthWestern Public Service is a summer peaking utility. The 2000 peak demand of 299.5 MW occurred in August 2000.

(b) Gas Operations

NorthWestern Public Service has nonexclusive municipal franchises to provide natural gas service in four Nebraska and 57 South Dakota communities. It transports natural gas for its unregulated affiliate, NorthWestern Energy, and for other gas suppliers and marketers. The total population in the communities served by NorthWestern Public Service natural gas operations is approximately 195,000. Purchase adjustment clauses contained in South Dakota and Nebraska tariffs allow it to reflect increases or decreases in gas supply and interstate transportation costs on a timely basis.

NorthWestern Public Service owns and operates natural gas distribution

systems serving 40,425 customers in eastern South Dakota. Its interstate pipeline needs are provided by Northern Natural Gas Company ("Northern") and Northern Border Pipeline Company ("Northern Border"). In addition to direct deliveries from these pipelines to NorthWestern Public Service's town border stations, NorthWestern Public Service constructed a pipeline facility from Northern Border to Aberdeen, South Dakota, to provide alternative and enhanced peak supply options (increasing capacity by 15,000 MMBTU per day) and to eliminate a deliverability pressure problem in Aberdeen on Northern's system. Coast Energy Group ("CEG"), the wholesale division of Cornerstone, coordinates supply and transportation services for NorthWestern Public Service's South Dakota gas systems and provides product procurement services for NorthWestern Public Service. Storage capacity services are provided under service agreements with Northern.

In Nebraska, NorthWestern Public Service owns and operates natural gas distribution systems serving 40,457 retail customers. It purchases all of its natural gas for these systems through KN Gas Marketing under a service agreement, with all supply and transportation services coordinated through NorthWestern Energy.

There are no assigned service territories for NorthWestern Public Service's natural gas business, and therefore competition in this industry may come from a number of sources. Competition currently exists for commodity sales to large volume customers. In South Dakota NorthWestern Energy is the principal other entity transporting natural gas on NorthWestern Public Service's distribution systems. Competition for delivery exists in the form of system by-pass, alternative fuel sources, and in some cases duplicate providers.

Maps of the South Dakota and Nebraska areas served by NorthWestern Public Service are included as a part of Exhibit 1. NorthWestern's annual report on Form 10-K to the SEC and its annual report to shareholders, both for the year ended



December 31, 1999, are attached as Exhibits 3 and 4 hereto, respectively, and the annual report on Form 1 to the FERC for the year ended December 31, 1999 of NorthWestern Public Service is attached as Exhibit 5 hereto.

(c) Regulatory Authorities

NorthWestern Public Service is a "public utility" within the meaning of the Federal Power Act and the South Dakota Public Utilities Act, and, as such, is subject to the jurisdiction of, and regulation by, the FERC with respect to issuance of securities, the South Dakota Public Utilities Commission ("SD PUC") with respect to electric service territories, and both the FERC and the SD PUC with respect to rates, service, accounting records, and in other respects. NorthWestern Public Service has wholesale electric tariffs in effect with the FERC for service to its wholesale municipal electric customers. Such tariffs include provisions for automatic adjustment of charges for adjustments in fuel and purchased power costs. NorthWestern Public Service has tariffs in effect for retail electric and natural gas customers in South Dakota, which tariffs have been approved by the SD PUC. NorthWestern Public Service has not increased cost of service rates for electricity since 1985. Increased cost of service rates for natural gas were approved and implemented in South Dakota in 1999. NorthWestern Public Service's tariffs in South Dakota provide for the pass through of qualified increases or decreases in the following: cost of fuel used for generating electricity, costs of purchased power, natural gas supply and transportation charges, and ad valorem taxes.

The State of Nebraska has no centralized regulatory agency which has jurisdiction over the operations of NorthWestern Public Service in that state, however, natural gas rates are subject to regulation by the municipalities in which NorthWestern Public Service operates in Nebraska. NorthWestern Public Service provides retail natural gas service pursuant to non-exclusive municipal natural gas

franchises in the cities of Grand Island, Kearney and North Platte, Nebraska and in the village of Alda, Nebraska. Increased base rates for natural gas were approved and implemented in Nebraska in 1999 for NorthWestern Public Service, and its rate ordinances in the Nebraska municipalities provide for the pass through of natural gas supply and transportation charges.

No proceeding has ever been held before the South Dakota Public Utilities Commission challenging the adequacy or dependability of service by NorthWestern Public Service under South Dakota Codified Law 49-34A-58. NorthWestern Public Service is committed to continuing to deliver reliable, reasonably priced electricity and natural gas in its traditional service areas in South Dakota and Nebraska, and NorthWestern expects to provide similarly reliable and reasonably priced service, through Montana Power, in the Montana service areas. The transaction will cause no adverse impact upon the continuity and quality of service provided to Montana Power's customers; in fact, in conjunction with NorthWestern Public Service and its operations in South Dakota and Nebraska and the experience of NorthWestern's senior management executives, service should be enhanced through the implementation of best practices in all jurisdictions.

At the time of the closing of the transaction, Montana Power's experienced operations team and its current facilities will remain in place, providing direct continuity of reliable electric and gas service at the rates then in effect. The closing of the transaction itself will have no effect on those operations. MPC and NorthWestern staff have already begun a process to identify "best practices," and as those are identified and used throughout the operations over time, customers of both companies will receive the benefit of service improvements. Following the closing, Montana Power will continue to have separate accounts for all ratemaking purposes, so that the costs of serving Montana customers can be directly identified.



### III. The Unit Purchase Agreement

The basic terms of the proposed transaction are set forth in the Unit Purchase Agreement ("Agreement"), attached as Exhibit 6 hereto. The Boards of Directors of MPC and NorthWestern have approved the Agreement. At NorthWestern's election, Montana Power's utility operations under the LLC structure will become either a wholly owned subsidiary or a division of NorthWestern and will continue to operate as a separate utility operating company. If NorthWestern decides to operate as a holding company, NorthWestern will seek a determination by the Securities and Exchange Commission ("SEC") that it qualifies as an exempt holding company under the Public Utility Holding Company Act. Exhibit 7 hereto depicts NorthWestern's proposed structure under an exempt holding company format. This request for Commission approval is not dependent on the SEC approving exempt holding company status.

The proposed transaction provides for the purchase of Montana Power membership interests in exchange for \$602 million in cash plus the assumption of no more than \$488 million in existing MPC debt.

### IV. Post-Transaction Operations

#### A. Separate Utility Operating Companies

NorthWestern intends that Montana Power and NorthWestern Public Service will continue as separate operating businesses after the proposed transaction is completed. The two utility businesses are not contiguous and are located in separate, non-synchronous interconnections and separate National Electric Reliability Council ("NERC") regions—MPC is part of the Western Systems Coordinating Council ("WSCC") and the Western Interconnection, while NorthWestern is within the Western Area Power Administration Control Area in the Mid Continent Area Power Pool ("MAPP"), which is part of the Eastern

Interconnection. As such, there will be no merger or consolidation of electric utility operations after the proposed transaction is consummated. Investments in additional or upgraded facilities, operations, or other improvements for continued reliable service, will be made as appropriate. Each operating entity, NorthWestern Public Service and Montana Power, will maintain separate accounts for ratemaking purposes, and the financing costs and other costs of service will be identified.

B. RTO Participation

MPC and other western utilities, Avista Corporation, Nevada Power Company, Portland General Electric Company, Puget Sound Energy, Inc. and Sierra Pacific Power, submitted a filing in Docket No. RT01-15-000 to form an independent transmission company named TransConnect LLC. If approved, TransConnect will be an independent transmission company that will own and operate the high-voltage transmission facilities presently owned and operated by each of the vertically-integrated utilities, and will participate as a transmission owner within RTO West, an RTO that plans to operate in the Western United States. MPC was also a party to the RTO West compliance filings that were submitted in Docket No. RTO1-35-000. As explained in the compliance filings, RTO West has developed a comprehensive proposal to fulfill the characteristics and functions under FERC Order No. 2000.

MPC has long been a strong supporter and leader in the development of an independent regional grid operator in the Pacific Northwest and has committed significant resources to the development of TransConnect and RTO West. Additional FERC guidance and agreement among the RTO West participants will be necessary before the TransConnect and RTO West proposals can be consummated.

NorthWestern supports MPC's participation in Transconnect and RTO West. While many significant details need to yet be resolved, NorthWestern, through

Montana Power, will continue to take a leadership role in the development of open transmission markets in the West.

NorthWestern submitted its RTO compliance filing to the FERC in Docket No. RT1-40-000. As discussed in that filing, Northwestern has actively pursued participation in an RTO but has not been able to commit to participate in a particular RTO due to reasons that are in several instances dependent upon the action of others. More specifically, NorthWestern has held extensive discussions with the Midwest ISO ("MISO"), but has been unable to reach agreement with regard to its participation in MISO due to the unique circumstances of NorthWestern's control area operations with the Western Area Power Administration. In addition to pursuing its discussions with MISO, NorthWestern is actively involved in the development of the Crescent Moon RTO. Although the development of Crescent Moon is still in the formative stages, Crescent Moon plans to be operational by December 15, 2001. Either through its participation in MISO, Crescent Moon, or another RTO ultimately approved by the FERC in its region, NorthWestern is committed to participating in an RTO in compliance with FERC Order No. 2000.

C. Montana Electric and Gas Operations

NorthWestern will ensure the existing Montana Power utility team will continue the same excellent service that MPC has provided throughout its history. NorthWestern team members will work with its Montana Power team members in developing budgets, evaluating current practices, and developing best practices and innovative services. Both companies will learn from one another so that the customers, employees and communities benefit from the strengths of the two enterprises.

Toward this end of providing the best customer solutions and services, NorthWestern and MPC team leaders met in Butte on October 26, 2000 to initiate a

collaboration-building process. The goals of the process are: (1) to acquaint each other with current process philosophies, benchmark existing practices, identify key drivers and assumptions underlying business plans, and emphasize those process activities that promote the goals of service excellence, performance, integrity, respect, innovation and teamwork; (2) to reach full understanding and appreciation of each company's key business drivers and functional processes and to assess opportunities for improvement; (3) to identify best practices, which of those practices can be implemented and which are the most important; and (4) to establish time frames for implementation of critical best practices, communicate goals, and educate the employees.

All of this is designed to maximize the strengths of each company so that excellent customer service is maintained.

D. Employees

NorthWestern's purchase of Montana Power is part of NorthWestern's continued business growth. NorthWestern values Montana Power's employees and their ability to continue this growth objective and expects to utilize their talents in achieving future success.

Among other things, the Agreement provides that during the period from the closing date (as defined in the Agreement) until 24 months following the closing date, NorthWestern shall maintain employee base salary, pension and welfare benefit plans, and other benefits at levels at least equal to, or equivalent in value to, the salaries and benefits currently provided and shall employ current personnel or pay severance. In addition, NorthWestern has agreed to provide employees credit for all years of service with MPC and to maintain all retiree benefits and the utility discount for these retirees, as set forth in the Agreement.

E. Communities

As discussed above, NorthWestern has been active in the communities it serves. In addition to significant financial contributions, NorthWestern encourages its employees to actively participate in community affairs and programs in many ways. Further, for the period from the closing date until 24 months following the closing date, NorthWestern has committed to continue to provide certain charitable contributions or other financial support for non-profit organizations and educational institutions in amounts comparable to MPC's past practice.

Since the October 2 announcement of the pending acquisition, NorthWestern and NorthWestern Public Service executives have made numerous trips to Montana to meet with governmental, civic and community leaders. Consumer Advisory Panel meetings and Community Leader Receptions have been held in Billings, Bozeman, Kalispell, Missoula, Helena, Great Falls, Havre and Lewistown. Executives have met with Governor Martz, Lieutenant Governor Ohs, leadership of the Montana Legislature, the Northwest Power Planning Council, the Montana Electricity Buyers Cooperative, Montana Senior Citizens Association and the American Association of Retired Persons, the Office of Consumer Counsel, Montana Electric Cooperatives' Association, Congressman Rehberg, and selected members of the Transition Advisory and Energy Committees. In addition in an effort to reach as many Montanans as possible, NorthWestern and NorthWestern Public Service leadership have met with numerous newspaper editorial boards throughout the state and have participated in various television and radio talk shows and news programs.

F. Regulatory Matters

MPC's major pending regulatory proceedings include its Tier 2 case, a comprehensive gas and electric revenue requirement case, a QF interim operating cost request, and a FERC stranded cost case. It is also participating in support of

Judge John W. Whelan's decision regarding the tracking of QF and other costs, currently on appeal to the Montana Supreme Court. This acquisition will not affect these matters. Montana Power will pursue them as MPC has over the recent months.

The Default Supplier issue is still pending. Montana Power will continue to be an active participant in shaping policy so that customers will have reasonably priced electricity. NorthWestern does not intend to change the MPC position that has been articulated over the recent months.

MPC has received an interim order in its rate proceedings before the Commission and will continue to pursue the matter further toward a final result on its rate filings.

Issues associated with these pending regulatory matters are not part of this Application, since this Application is limited to a determination that Montana Power's utility operations, as a division or subsidiary of NorthWestern, will continue to be a fit, willing and able provider of adequate service and facilities at just and reasonable rates.

Finally, after MPC announced its decision to sell its energy businesses, an issue arose regarding allocation of the proceeds from the sale of the regulated businesses between the MPC shareholders and the ratepayers. In a variety of forums, MPC consistently said that in the case where the entire business was being sold, the law required that the proceeds flowed to the shareholder. NorthWestern and MPC do not feel that a determination of the allocation issue is germane to the Commission's finding in this docket that Montana Power will continue to be a fit, willing and able provider of adequate service and facilities at just and reasonable rates.



G. Financing the Acquisition

NorthWestern has obtained a binding commitment from Credit Suisse First Boston in an amount sufficient to fund the equity purchase price of \$602 million (in addition, approximately \$488 million of existing debt will be assumed by purchaser at the closing), with a term of two years following the closing date. NorthWestern intends to issue a combination of permanent equity and long-term debt financing to replace its acquisition financing.

V. **Procedural Matters**

MPC and NorthWestern respectfully request the Commission determine that with NorthWestern's acquisition, Montana Power will continue to be fit, willing and able to provide adequate electric and natural gas services at just and reasonable rates to its Montana customers. As described above, the transaction is clearly within the public interest as measured by the fit, willing and able criteria. The Applicants' proposed closing date is May 2001. As such, so that the parties will have ample time to effect the transaction, the Applicants respectfully request the Commission's approval by March 30, 2001.

A copy of this Joint Application has been served on the Montana Consumer Counsel, the Governor's Office, the Butte Silver Bow County Government, and the Large Customer Group.



Respectfully submitted,

THE MONTANA POWER COMPANY

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Its Attorney

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Its Attorneys

Dated: January 11<sup>th</sup> 2001.

MONTANA PUBLIC SERVICE COMMISSION

CERTIFICATE OF SERVICE

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I hereby certify that a copy of the **Joint Application of The Montana Power Company and NorthWestern Corporation** has today been served on the following by mailing a copy thereof by first class mail, postage prepaid.

Date: January 11, 2001.


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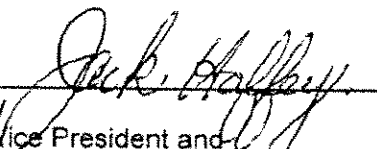
  
Kathleen Sparks

Verification


STATE OF MONTANA                     )  
                                                  ) ss.  
COUNTY OF SILVER BOW            )

NOW, BEFORE ME, the undersigned authority, personally came and appeared, Jack Haffey, who first being duly sworn by me, did depose and say:

That he is Executive Vice President and Chief Operating Officer of The Montana Power Company, an applicant in the proceeding; that he has the authority to verify the foregoing Joint Application on behalf of The Montana Power Company; that he has read the Joint Application and knows the contents thereof; and that the statements contained in the Joint Application pertaining to The Montana Power Company are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Jack Haffey  
Executive Vice President and  
Chief Operating Officer

Subscribed and sworn to me this 11<sup>th</sup> day of January, 2001.

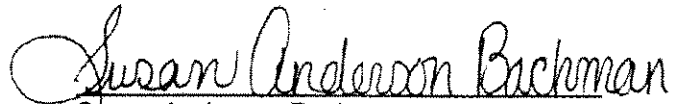
  
\_\_\_\_\_  
Notary Public in and for the State of Montana  
Residing at Butte  
My Commission expires June 1, 2004

Verification

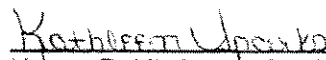
STATE OF MONTANA                     )  
                                                      ) ss.  
COUNTY OF SILVER BOW            )

NOW, BEFORE ME, the undersigned authority, personally came and appeared, Susan Anderson Bachman, who first being duly sworn by me, did depose and say:

That she is Vice President – Legal Services of NorthWestern Corporation, an applicant in the proceeding; that she has the authority to verify the foregoing Joint Application on behalf of NorthWestern Corporation; that she has read the Joint Application and knows the contents thereof; and that the statements contained in the Joint Application pertaining to NorthWestern Corporation are true and correct to the best of her knowledge and belief.

  
Susan Anderson Bachman  
Vice President – Legal Services

Subscribed and sworn to me this 8<sup>th</sup> day of JANUARY, 2001.

  
Notary Public in and for the State of Montana  
Residing at BUTTE MT  
My Commission expires OCT 20 2004